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To: The Honorable Sylvia Luke, Chair
and Members of the House Committee on Finance

Date: Thursday, February 25, 2016

Time: 1:00 P.M.

Place: Conference Room 308, State Capitol

From: Maria E. Zielinski, Director
Department of Taxation

Re: H.B. 2744, H.D. 1, Relating to Housing.

The Department of Taxation (Department) appreciates the intent of the measure but defers to the Hawaii Housing Finance and Development Corporation (HHFDC) on the merits of this bill, and provides the following comments regarding H.B. 2744, H.D. 1, for your consideration.

H.B. 2744 would have amended the low-income housing tax credit by:

- Removing the provisions related to subawards issued under section 1602 of the American Recovery and Reinvestment Act of 2009;
- Clarifying that the allocation of tax credits for pass-through entities;
- Basing the amount of the tax credit on whether or not a building is financed by tax exempt Bonds; and
- Removing reference to Internal Revenue Code (IRC) sections regarding the application of at risk rules and limitation of passive activity losses and credits.

The House Committee on Housing amended the measure by:

- Reinstating language that was to be repealed by this measure, including the provisions related to eligibility and the credit rate for recipients of subawards issued under Section 1602 of the American Recovery and Reinvestment Act of 2009 and the IRC sections regarding at-risk rules and limitation of passive activity losses and credits;
- Removing language that would have qualified any taxpayers owning an interest in a qualified low-income housing building or qualified low-income housing project (whether certified by HHFDC or not) located in the State as eligible to claim a low-income housing tax credit, and removing the language that would have required the tax credits of a partnership, S corporation, estate, or trust to be determined at the entity level; and

- Shortened the period over which the credits are taken from ten years to five years in order to increase the value of the State Low-Income Housing Tax Credits, thereby encouraging investments.

This measure has a defective effective date of July 1, 2050.

The Department notes that this measure sets the amount of the credit with respect to buildings that are not financed with tax-exempt bonds at fifty per cent of the applicable percentage of the qualified basis of each building located in Hawaii, whereas buildings that are to be financed with tax-exempt bonds will receive one hundred per cent of the applicable percentage of the qualified basis of each building located in Hawaii. It is not clear why a building financed with tax exempt bonds should receive a greater amount of credits than one that is not financed with tax exempt bonds. Nevertheless, the Department defers to HHFDC on the merits of this provision.

Thank you for the opportunity to provide comments.

DAVID Y. IGE
GOVERNOR



CRAIG K. HIRAI
EXECUTIVE DIRECTOR

STATE OF HAWAII

DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT AND TOURISM
HAWAII HOUSING FINANCE AND DEVELOPMENT CORPORATION
677 QUEEN STREET, SUITE 300
Honolulu, Hawaii 96813
FAX: (808) 587-0600

IN REPLY REFER TO:

Statement of
Craig K. Hirai
Hawaii Housing Finance and Development Corporation
Before the

HOUSE COMMITTEE ON FINANCE

February 25, 2016 at 1:00 p.m.
State Capitol, Room 308

In consideration of
H.B. 2744, H.D. 1
RELATING TO HOUSING.

The HHFDC **offers comments on** H.B.2744, H.D. 1. This bill amends statutes relating to the State Low-Income Housing Tax Credit (LIHTC) program, which HHFDC administers. The LIHTC program is an important source of equity financing for affordable rental projects for households at or below 60 percent of the area median income.

H.B. 2744, H.D. 1 appears to accelerate both the 9% volume cap and the 4% non-volume cap LIHTCs which are coupled with the use of Hula Mae Multifamily revenue bonds, and to double the value of the State 4% non-volume cap LIHTCs. We note that there is an Administration bill, S.B. 2833, S.D. 1, that would accelerate both the 9% volume cap and the 4% non-volume cap LIHTCs and to increase their value.

Thank you for the opportunity to testify.

TAX FOUNDATION OF HAWAII

126 Queen Street, Suite 304

Honolulu, Hawaii 96813 Tel. 536-4587

SUBJECT: INCOME, Low-Income Housing Credit

BILL NUMBER: HB 2744, HD-1

INTRODUCED BY: House Committee on Housing

EXECUTIVE SUMMARY: Increases availability of the state low-income housing credit by increasing the aggregate amount, and makes the credit more valuable by reducing the payout period from ten to five years. Further increases the payouts and caps.

BRIEF SUMMARY: Amends HRS section 201H-15 to increase the state aggregate housing credit to \$1.75 times population, up from \$1.25.

Amends HRS section 235-110.8(c) to double the credit for buildings that are to be financed with tax-exempt bonds.

Adds a new section to HRS section 235-110.8 to provide that for each low-income housing project placed in service beginning after December 31, 2016, pursuant to IRC section 42(b), the state housing credit shall be recovered over 5 years instead of 10.

EFFECTIVE DATE: January 1, 2050, and shall apply to qualified low-income buildings awarded credits after December 31, 2016.

STAFF COMMENTS: Act 216, SLH 1988, adopted for Hawaii purposes the federal low-income rental housing credit that was part of the Tax Reform Act of 1986. The credit was enacted to offset the repeal of tax shelters and other incentives to build rental housing under prior law, such as accelerated depreciation, capital gains preference, certain tax-exempt bonds, and to specifically target low-income rentals.

The federal credit is a 70% present value credit for qualified new construction and rehabilitation expenditures which are not federally subsidized, and 30% for those which are federally subsidized. The existing state credit allows for a credit of 50% of the “applicable percentage of the qualified basis” allowed under federal law taken over a period of 10 years; the proposed measure would double the credit to 100% for those projects using tax-exempt bond financing; shorten the 10-year period to 5 years, and would again double the payout for those projects using tax-exempt bond financing.

While this is just one incentive to encourage developers to build affordable housing, consideration should be given to a number of strategies including the debt financing, partnerships with financial institutions who could then turn around and sell the credits, and the use of federal private activity bonds. Finally, apparently public officials still have not recognized that one of the greatest contributors to the cost of housing in Hawaii is the draconian maze of permitting and regulatory processes in order to bring those homes to market. While those regulatory guidelines are to insure the health and safety of the public, streamlining the process would accelerate the

Re: HB 2744
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time needed to secure those permits thereby reducing the cost of financing. This savings would go a long way toward reducing the final cost of the house to the consumer. For example, for one housing project on Kauai, it took nearly five years to secure the necessary permits to build 14 affordable homes.

Digested 1/30/2016



Chamber of Commerce HAWAII

The Voice of Business

**Testimony to the House Committee on Finance
Thursday, February 25, 2016 at 1:00 P.M.
Conference Room 308, State Capitol**

RE: HOUSE BILL 2744 HD 1 RELATING TO HOUSING

Chair Luke, Vice Chair Nishimoto, and Members of the Committee:

The Chamber of Commerce Hawaii ("The Chamber") **strongly supports** HB 2744 HD 1, which bases the amount of the tax credit on whether or not a building is financed by tax-exempt bonds. Increases funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable. Reduces State Tax Credit period from ten to five years.

The Chamber is Hawaii's leading statewide business advocacy organization, representing about 1,000 businesses. Approximately 80% of our members are small businesses with less than 20 employees. As the "Voice of Business" in Hawaii, the organization works on behalf of members and the entire business community to improve the state's economic climate and to foster positive action on issues of common concern.

The Chamber of Commerce of Hawaii and the Building Industry Association of Hawaii convened a conference (Houseless in Honolulu) in November of 2015 to raise awareness of one of Hawaii's most pressing issues - home affordability. With the median home price in the Islands now \$730,000, the repercussions are having a major impact on Honolulu's economy.

The Department of Business, Economic Development and Tourism forecasted demand for additional housing units by county is 25,847 units for Honolulu, 19,610 for Hawaii, 13,949 for Maui, and 5,287 for Kauai during the 2015-2025 period (DBEDT Report—Measuring Housing Demand in Hawaii, 2015-2025).

We believe that in order to address the current "Housing Crisis," there needs to be a shift in the focus of how government views housing development and move from our current "Regulatory" stance to a more "Production Oriented" stance. For example, this shift would have the City and County of Honolulu adopt a goal of approving an average of 2,500 new residential units each year over the next 10 year period to address the project 25,847 unit demand.

Creating more incentives for investments in the State Low-Income Housing Tax Credit would provide the needed capital investment to produce more units at these price points.

We are in strong support of H.B. 2744 HD 1 and appreciate the opportunity to express our views on this matter.

Testimony in Support of HB 2744 HD1
House Committee on Finance
Thursday, February 25, 2016, 1:00 PM HCR 308

The Honorable Sylvia Luke, Chair and Members of the Committee on Finance:

My name is Rachel Stern, with InState Partners, testifying in strong support of HB 2744 HD1 Relating to Housing.

Currently, for every 100 low-income families in Hawaii, there are only 29 affordable housing units available. Housing is considered “affordable” when a household spends less than 30 percent of their income on shelter and utilities. Households that spend more are considered cost-burdened and are frequently forced to make difficult financial tradeoffs with other basic necessities. Under these criteria, more than half of all Hawaii renters do not live in affordable housing.

State and Federal Low Income Housing Tax Credits can be a successful part of the solution to this affordable housing crisis. As the law is written now, the state provides a 50% match for the Federal credits for both 9% and 4% LIHTC projects. This bill, HB 2744 HD1, instead creates a one-to-one match between state and federal credits for the 4% deals. As is expected, 4% LIHTC deals are much more difficult to finance, because they require developers to take on significantly more debt than the 9% projects. The current 50% state match to federal credits does not generate enough subsidy for the 4% projects to be economically viable, resulting in low developer and investor interest. As such, Hawaii is currently only using 60% of the state’s total possible Federal subsidies for these projects—a one-to-one match will help Hawaii bring more federal dollars to the state, and increase the amount of affordable housing projects being done on the islands.

While the measure provides an opportunity to increase the 4% dollars and deals coming to the state, we urge this committee to amend this measure by deleting the language on page 5, lines 20 - 21 and page 7, lines 13 – 15. These amendments delete Hawaii’s conformity to Federal at-risk and passive activity loss limitations.

The at-risk limitation noted on page 5, lines 20 - 21 only applies to individuals and closely-held corporations, thereby discouraging investments in low income housing tax credit projects from that investor pool. Removing the at-risk rules for state income tax purposes would broaden the potential investor pool. As of now, the at-risk rules effectively limit investments to large investment companies and publicly held corporations, not reflective of the Hawaii investor pool population. Removal of the at-risk limitation would level the playing field for Hawaii investors.

For similar reasons, we ask that you delete lines 13 – 15 on page 7. Internal Revenue Code Section 469, concerning passive activity losses, applies to individuals and closely-held corporations, the same as the at-risk provision, which will also put Hawaii investors at a disadvantage.

We welcome the chance to work with this committee and with the state departments to put forth a measure that incentivizes Hawaii developers and investors while building much needed low-income housing.

Thank you for this opportunity to testify.

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Testimony to the House Committee on Finance
Thursday, February 25, 2016
1:00 p.m.
State Capitol - Conference Room 308

LATE

RE: H.B. 2744 H.D. 1, RELATING TO HOUSING

Chair Luke and Vice Chair Nishimoto, and members of the committee:

My name is Gladys Marrone, Chief Executive Officer for the Building Industry Association of Hawaii (BIA-Hawaii), the Voice of the Construction Industry. We promote our members through advocacy and education, and provide community outreach programs to enhance the quality of life for the people of Hawaii. BIA-Hawaii is a not-for-profit professional trade organization chartered in 1955, and affiliated with the National Association of Home Builders.

BIA Hawaii is in **strong support** of H.B. 2744 H.D. 1, which proposes to base the amount of the tax credit on whether or not a building is financed by tax-exempt bonds. It would also increase funding for affordable rental housing development by making the State Low-Income Housing Tax Credit more valuable, and would reduce the State Tax Credit period from ten to five years.

The Building Industry Association of Hawaii and the Chamber of Commerce of Hawaii convened a conference (Houseless in Honolulu) in November of 2015 to raise awareness of one of Hawaii's most pressing issues - home affordability. With the median home price in the Islands now \$730,000, the repercussions are having a major impact on Honolulu's economy.

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We believe that in order to address the current "Housing Crisis," there needs to be a shift in the focus of how government views housing development and move from our current "Regulatory" stance to a more "Production Oriented" stance. For example, this shift would have the City and County of Honolulu adopt a goal of approving an average of 2,500 new residential units each year over the next 10 year period to address the project 25,847 unit demand.

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We are in strong support of H.B. 2744 and appreciate the opportunity to express our views on this matter.